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RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 02 BUENOS AIRES 001395

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E.O. 12958: DECL: 10/08/2028
TAGS: [EFIN](#) [ECON](#) [ETRD](#) [PREL](#) [AR](#)
SUBJECT: GLOBAL ECONOMIC CRISIS COMPLICATES ARGENTINE PARIS
CLUB PAYMENT

REF: BUENOS AIRES 1312

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

Summary

¶1. (C) Rumors are circulating in Argentina that the GoA will delay payment of Paris Club debts (Reftel) due to concerns about weakening the Central Bank at a time of great economic and financial uncertainty. The press on October 8 & 9 quoted Interior Minister Florencio Randazzo confirming the GoA is "evaluating the possible suspension" of the announced payment. Finance Secretary Hernan Lorenzino assured Post late October 8 that this is not the case, but qualified this by stating that the GoA "will continue negotiating the best alternative for Argentina given the international context." Economy Ministry staff confirm they have not received instructions to stop or slow the process and are finishing the debt reconciliation process. Post's take: the political will is still there in both the GoA and Argentine Congress to complete the Paris Club deal, but the uncertain international context will prompt the GoA to keep its options open) and reserve levels high -- until markets settle. End Summary.

¶2. (U) This is one of two cables on the impact of the financial crisis on the GoA's proposed debt deals. A companion cable discusses GoA negotiations with private creditors.

Rumors of Delay in Paris Club Payment

¶3. (SBU) Argentine media sources have issued numerous reports recently alleging that the GoA is planning to delay a payment deal with the Paris Club (see Reftel and previous for background). These reports, usually citing unidentified GoA and Central Bank (BCRA) sources, state that senior GoA and BCRA officials are concerned that using BCRA reserves to pay roughly \$7 billion in Paris Club debt would weaken the Central Bank's ability to respond to the fallout of the global financial crisis on Argentina's economy (i.e., limiting the BCRA's ability to maintain a stable peso and ensure liquidity in the local financial system).

¶4. (SBU) Argentine financial daily, Ambito Financiero, and mass circulation daily Clarin, quoted Interior Minister Florencio Randazzo on October 8 & 9 confirming that due to the unstable international situation the GoA is "evaluating the possible suspension" of the announced payment, while also making assurances that "despite the international crisis, the Argentine economy is solid." Financial daily Cronista uses a similar quote from Randazzo, but also has him stating that

the GoA has "committed itself to comply" with this obligation. Cronista also states that President Cristina Fernandez de Kirchner (CFK) has decided to suspend the Paris Club payment for this year, with no plan to pick it up again before February. The article repeats that the GoA has "based this decision on the need to fortify the Central Bank's international reserves in the face of the global financial crisis."

15. (C) These sentiments are shared by many private sector analysts and members of Congress, who have also voiced concerns about the prudence of using reserves at this uncertain time and also questioning the payment of Paris Club debt in one shot. Indeed, during an October 2 meeting, Senator Luis Alberto Viana, Chair of the Senate's Economic and Investment Committee, told Ambassador Wayne that while there was political will in Congress to approve the various decrees the GoA has sent to Congress on the Paris Club agreement, there is also great concern over its impact on the Central Bank's balance sheet. He noted that he plans to approach Economy Minister Carlos Fernandez to propose that at minimum the GoA pay in installments.

16. (C) Econoffs received a nuanced message late on October 8 from the GoA's lead Paris Club (and holdout) negotiator, Finance Secretary Hernan Lorenzino. In response to a query on whether there was any truth to press reports of Interior Minister Randazzo's comments, Lorenzino assured Econoffs that "we are not analyzing a suspension of the payment. We will continue negotiating the best alternative for Argentina given the international context."

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Econ Ministry Staff Assert Paris Club Payment on Track

17. (C) Economy Ministry staff working on Paris Club talks also assert that the process is on track. Norberto Lopez Isnardi (PROTECT), Director of Public Credit at the Ministry of Economy (reporting to Finance Secretary Hernan Lorenzino) told Econoff October 7 that Economic Ministry staff have not received instructions to stop the process, and he considered such an action "politically unviable." He did confirm that, contrary to CFK's original announcement, the GoA plans to pay only arrears (which he calculates at 80% of the total), while coming current on payments on outstanding principal.

18. (C) Lopez said that the GoA still expects to complete the payments of arrears this year -- by end-November or early December. His staff is coordinating closely with the Paris Club Secretariat to reconcile the debt figures, and is nearly finished. He noted that only minor differences remained, and added that the discrepancy between GoA and U.S. numbers is insignificant. (Comment: CFK originally announced, erroneously, that the GoA owed US\$ 6.7 billion to Paris Club creditors. At the time of the announcement, the Economy Ministry's own figures were closer to US\$ 7 billion. Also, according to the Paris Club's April data call, the full amount owed is US\$ 7.9 billion, including about US\$ 6.5 billion in arrears, including interest.)

19. (C) Lopez says that the GoA is negotiating over whether to include some old debts that were not properly documented. He claimed that these debts should have been included in prior rounds of Paris Club restructuring deals with Argentina, and the GoA does not agree with those creditors that are trying to include them in the current payment scheme. He also acknowledged GoA interest in negotiating the level of punitive interest and fees to include.

Comment

¶10. (C) Based on Post's conversations with GoA officials at different levels, and also with members of Congress, it is clear that there is still strong interest in completing the Paris Club payment. The GoA's current work with individual Paris Club creditors to reconcile arrears is welcome and will allow the GoA to move quickly when it feels the time is right. However, until the dust settles in global financial markets, the GoA will likely keep its options open and reserve levels high.

WAYNE